



Office of the Governor
Legislature
State Auditor's Office
Department of Finance
State Library

The Financial Integrity and State Manager's Accountability Act of 1983

As the appointed head of the State Department of Parks and Recreation, and in accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code sections 13400 through 13407, I am submitting the following report.

The audit report, dated January 28, 2008, conducted by the Department's Internal Audits Office, was issued on my department's internal control structure. The report includes the corrective actions that we have taken to address the recommendations made in the report.

In accordance with State Administrative Manual, section 20060, I have submitted the report to the Honorable Mike Chrisman, Secretary for Resources.

Ruth Coleman
Director

Attachment

DEPARTMENT OF PARKS AND RECREATION
Final Audit Report on Internal Control Systems
of Department Operations as of June 30, 2007

Richard Wong, Chief
Telephone: (916) 445-8999

Audit Staff: James McAlister, CPA
Shannon McGlade
Uma Kasi
Barbara Eining
Michael Foley

Prepared By:

Department of Parks and Recreation
Audits Office
One Capitol Mall, Suite 500
Sacramento, California 95814

Memorandum

Date : FEB 21 2008
To : Manuel Lopez, Deputy Director, Administrative Services
From : Department of Parks and Recreation
Audits Office
Subject : Final Report for the SAM 20000 Audit

The following is our final report for the SAM 20000 audit for the period July 1, 2005 through June 30, 2007. The audit was performed during October and November of 2007.

The report contains all material findings and recommendations discussed with Department personnel during the course of the audit. A corrective action plan addressing each of these findings is included in this report.

The SAM 20000 audit also reviews the findings of the prior SAM 20000 audit conducted by our office. The follow-up on these findings begins on page 18 of this report.

If you have any questions, please call me at (916) 445-8992.

Sincerely,


Richard Wong, Chief
Audits Office

cc: Ruth Coleman
Ted Jackson
Olaya Paschal
Dorothy Kroll
Olivia Suber
Gayle Bohlmann
Alan Friedman

TABLE OF CONTENTS

	<u>Page Number</u>
AUDITOR'S REPORT	
Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	2
FINDINGS AND RECOMMENDATIONS	3-17
Department's action on prior SAM 20000 audit findings	18-42

AUDITOR'S REPORT

Summary

We have performed the SAM 20000 audit of Department operations as of June 30, 2007.

We found that the Department is substantially in compliance with Government Code Section 13400, et seq., which requires that State agency heads establish and maintain systems of internal accounting and administrative control within their agencies. As noted in the accompanying Findings and Recommendations Section, the Department has areas where improvement is needed. Findings are presented in the areas of cash receipts, accounts receivable, purchasing, cash disbursements, payroll/personnel, contracts, and fixed assets.

Our audit includes both park districts and headquarters operations. Complete audits are made of all park districts, plus the field units for the Off Highway Motor Vehicle District on a three-year cycle. Audits of internal controls over cash receipts and disbursements are performed on an on-going basis.

Background

In accordance with the Government Code, Section 13400, et seq., State agency heads are responsible for establishing and maintaining systems of internal accounting and administrative control within their agencies. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The Department's most recent study and assessment of the internal control structure was completed in 2005. This report, dated November 22, 2005, outlined a number of findings and recommendations. Beginning on page 18 of this report, we report the progress made by the Department in addressing those findings.

Objective

We conducted the audit in accordance with Generally Accepted Government Auditing Standards. The primary objective of our audit was to assess the relative risk areas within the Department where errors, misstatement, or loss could occur, and to determine whether the internal control structure of the Department provides effective control over receipts, expenditures, assets and liabilities.

AUDITOR'S REPORT

Scope

Our scope was limited to planning and performing audit procedures to obtain reasonable assurance whether Department operations are in compliance with applicable requirements as promulgated by the State Administrative Manual (SAM). District operations are audited separately. The results are reported in the District audit reports, and included, if applicable, in this report.

Methodology

Our methodology involved asking internal control questions, documenting responses, preparing narratives and flowcharts of department operations, testing internal control on a sample basis, documenting policies and procedures, and performing tests of transactions. Our work was performed at Department Headquarters during October and November 2007.

Conclusion

Our audit disclosed that, except for the instances of noncompliance shown in the Findings and Recommendations section of this report, Department Headquarters operations were in compliance with applicable State Administrative Manual rules and regulations.



Richard Wong, Chief
Audits Office

January 28, 2008

AUDIT FINDINGS AND RECOMMENDATIONS

PARK OPERATIONS

CASH RECEIPTS

FINDING 1 **Internal controls over cash receipts from pay showers and iron rangers needs to be improved**

Condition: We reviewed eleven park districts during the 2005-2007 fiscal years. We found instances at some park units where the internal controls and accountability over cash receipts are not well established, as follows:

1. Pay showers sometimes do not have working meters. This makes accountability over pay shower revenue virtually impossible. Oftentimes, pay showers have working meters, but the meter readings are not independently reconciled to ensure that all cash collected is accounted for.
2. Many park units use iron rangers to collect fees for day use. Iron rangers provide poor accountability over cash receipts.

Criteria: SAM Section 20003 requires a system of internal controls for the purpose of safeguarding State assets. Internal controls over cash are designed to safeguard cash, and to prevent or detect errors and thefts.

Good internal control requires separation of duties over cash handling and accounting for cash, a recorded chain of custody of assets, and establishment of a good audit document trail.

Recommendation: We recommend that park units work toward having operational meters for all pay showers. We further recommend that Park Operations request that shower revenue be established with its own source code on the Report of Collections, so that this revenue can be individually recognized. Currently, pay shower revenue is combined with special event revenue and 'other revenue' on the ROC. We also recommend that the park units move toward electronic self-pay machines where practicable.

AUDIT FINDINGS AND RECOMMENDATIONS

PARK OPERATIONS

CASH RECEIPTS (continued)

DPR Response: 1) Pay Showers:

Maintaining park facilities on an ongoing basis continues to be a challenge for the Department given the fiscal constraints. Park Operations will encourage the Districts to inspect and insure that shower meters are in good working order. Park Operations will further encourage the Districts to install meters at showers that lack them.

Guidelines for proper shower accounting procedures are contained in the draft Cash Handling Handbook. This handbook will be incorporated in the new Park Operations Handbook. The Park Operations Handbook will serve to compliment the new DOM Chapter 1800 – Park Operations which is currently under development. It is anticipated that the new chapter and handbook will be completed by June of 2008.

A source code already exists for shower receipts on the Report of Collections. Park Operations will remind the Districts to use this code properly.

2) Iron Rangers:

Over the last 2 years the Department has installed a number of electronic self-pay machines at a number of park units. As current and future budgets permit, the Department will continue this process, thereby significantly reducing the need for use of the Iron Ranger. Proper accounting procedures for the Iron Ranger are contained in the draft Cash Handling Handbook and will be incorporated as stated above.

AUDIT FINDINGS AND RECOMMENDATIONS

HEADQUARTERS ACCOUNTING

CASH RECEIPTS

FINDING 2 Transfer Receipt & Cash Log not being used

Condition: The Sacramento Headquarters Cashiering Unit has not been using the Transfer Receipt & Cash Log to track when cash or negotiable instruments not made payable to the entity are transferred between employees.

Criteria: SAM 8021 states that a separate series of transfer receipts will be used to localize accountability for cash or negotiable instruments to a specific employee from the time of its receipt to its deposit.

A receipt will be signed by the receiving employee whenever cash or checks not payable to the State agency are transferred between employees. State agencies will retain copies of these receipts.

Recommendation: We recommend that the Sacramento Headquarters Cashiering unit uses the Transfer Receipt & Cash Log.

DPR Response: We concur with this finding. The Fiscal Services Section now uses the Transfer Receipt & Cash Log to track when cash and negotiable instruments not made payable to the Department of Parks and Recreation are transferred between employees.

ACCOUNTS RECEIVABLE

FINDING 3 Procedures inadequate for ensuring timely payment of amount due in which a billing method is not used:

Condition: Chevron (Texaco) has an agreement with the Department that requires them to pay a \$600 monthly fixed payment. Our review disclosed that Chevron (Texaco) has made no payments since May 2004. It appears that, as of June 30, 2007, Chevron (Texaco) owes the Department \$22,800.

The Blakemore Water Agreement, is supposed to pay the Department a yearly fixed payment of \$725. Our review indicates that Blakemore has made no payments since

AUDIT FINDINGS AND RECOMMENDATIONS

HEADQUARTERS ACCOUNTING

ACCOUNTS RECEIVABLE (continued)

December 2002. It appears that, as of June 30, 2007, Blakemore owed the Department \$3,625.

Criteria: SAM 8776.3 states that "An invoice or other type of claim document will be prepared and sent out as soon as possible after the recognition of a claim."

When payment of amounts due in which a billing method is not used, DPR 80, Accounts Receivable Summary Sheet, is used to track payments. If payment is not received by the 15th of each month, then the vendor should be contacted to request payment.

Recommendation: Business and Fiscal Services Section should take appropriate steps to ensure timely payment of amounts due in which a billing method is not used.

DPR Response: We concur with this finding. The Fiscal Services Section is establishing procedures to ensure timely payment of amounts due when a billing method is not used. The Fiscal Services Section will pursue collection of all delinquent amounts and monitor receipt of all payments due on a monthly basis.

PURCHASING

FINDING 4 Internal controls over outstanding encumbrances need improvement

Condition: We randomly selected 29 outstanding encumbrances from fiscal years 2005/2006 and 2006/2007 to see if outstanding encumbrances are periodically reviewed for continuing validity. We found that none of the 29 encumbrances in our sample were being followed up on. For six of these encumbrances (total amount of \$49,306), no money had been spent in over a year. For the other 23 encumbrances, some money has been spent during the last 12 months, but there was still no information in the file to indicate that a periodic follow-up was being performed.

AUDIT FINDINGS AND RECOMMENDATIONS

HEADQUARTERS ACCOUNTING

PURCHASING (continued)

Criteria: Good internal control requires that encumbrances be periodically investigated for validity.

Recommendation: We recommend that Accounting perform a regular periodic review of long outstanding encumbrances, and document the results.

The Accounting Section should develop a contact log (telephone/e-mail) that is kept in each file to document information between them and originating unit regarding the encumbrances.

DPR Response: We concur with the findings. The Accounting Section contacts the District and Division staff for status reports on encumbrances with no recent payment activity. Encumbrance balances are reviewed every other month for validity and accuracy. However, the Accounting Section could improve on their documentation of District/Division contacts (phone calls, e-mails, memos). The Accounts Payable Unit is hiring an Accounting Officer who will be responsible for developing new processes, monitoring the encumbrance reports and training Staff to improve the timely review and reconciliation of encumbrances.

FINDING 5 Late payment penalties

Condition: During the 2006-2007 fiscal year, the Department paid \$76,212 in late payment penalties to vendors. This was an improvement over the previous fiscal year when the department paid \$156,823 in late payment penalties. Nevertheless, the payment of late payment penalties represents resources that could be better used in furtherance of the Department's mission.

Criteria: SAM 8474 (California Prompt Payment Act) requires State agencies to automatically calculate and pay penalties if they fail to pay properly submitted, undisputed invoices on the date required by the contract. Consequently, management must act prudently to ensure that controls are in effect that will minimize late payment penalties.

AUDIT FINDINGS AND RECOMMENDATIONS

HEADQUARTERS ACCOUNTING

PURCHASING (continued)

Recommendation: The Department should continue its efforts in reviewing instances of substantial late payment penalties and make a determination as to whether they are caused by unavoidable circumstances or by performance deficiencies. This information should be used to improve processes, and reduce future penalties.

DPR Response: We concur with the findings. The Department continuously strives to reduce its late payment penalties. The Accounting Section will continue to provide training on the Prompt Payment Act and staff responsibilities for compliance. The Accounting Section will report late payment penalties to District and Division management for their operational review and action. The Accounting Section will also be incorporating Prompt Payment Act training in the Department's annual Business and Fiscal training held for the Field and Headquarters Staff.

REVOLVING FUND

FINDING 6

Separation of duties needs to be improved

Condition: We found that there was no daily review made by a supervisor to reconcile the blank check stock log maintained in the safe to the check signing meter log. We also found that the person responsible for custody of the blank checks during the day is also responsible for signing the safe check log for the blank check stock. This person also reviews and signs the daily log for checks written and signed.

Although we believe that the risk of a material fraud is slight, this practice puts the Department out of compliance with SAM 8080 and SAM 8081.

The same conditions were noted in the prior audit finding.

Criteria:

SAM Section 8081 requires that a person assigned to compare signed checks to authorizations and supporting documents will compare the meter reading on the

AUDIT FINDINGS AND RECOMMENDATIONS

HEADQUARTERS ACCOUNTING

REVOLVING FUND (continued)

machine with checks used according to the log of checks reviewed and signed by machine. At least once each week a comparison with the meter reading needs to be done.

SAM Section 8080.1 requires that no one person will perform more than one of the following types of duties: Controlling blank check stock, Approving disbursement document, Reconciling input to output, and Initiating or preparing invoices.

Recommendation: The Accounting Office should ensure that review of the safe check log and daily log for checks written and signed is performed by someone that does not have access to the blank check stock. Provide sufficient separation of duties to ensure that no one individual is responsible for multiple duties that could lead to errors or irregularities.

DPR Response: We concur with the finding and the following procedures have been put in place. The Accounting Administrator-Supervisor or the Senior Accounting Officer-Lead is responsible for comparing signed checks to authorizations and supporting documentation. Additionally, the AAI or SAO will reconcile the number of checks used against the number of checks signed. This reconciliation is done by verifying the number of checks used to the check signing meter at the end of each day.

The Cashiering Unit is the custodian of the blank check stock. The check writer (Revolving Fund Unit staff) requests checks from the check stock custodian and both sign off on the "Check Sign-Off Control Slip"-DPR 51A. The DPR 51A is routed with the check batch and each staff person responsible for entering the check transactions, operating the check signing machine, reviewing the signed checks against supporting documentation, and disbursing the checks initials off on the DPR 51A. No one individual is responsible for more than one task. The DPR 51A also identifies any voided or cancelled checks.

AUDIT FINDINGS AND RECOMMENDATIONS

PERSONNEL SERVICES

FINDING 7 Overpayment made to a previously separated employee has not been collected

Condition: In our prior audit (2005), we found that a separating employee received an overpayment of 168 hours. This was caused by a miscalculation made by a Personnel Services employee. During our follow-up we found no evidence that an accounts receivable was set up, or that collection of the overpayment was ever made. This employee is currently working as a retired annuitant.

During our current audit we tested seven separations and found that two of them were overpaid. One separating employee was overpaid for 117 hours. Another separating employee was overpaid for 16 hours.

There are no written procedures for separation pay processing. There are no formal prepared separation calculation worksheets that Transaction Specialists can access to help them calculate separation pay. It is not clear whether there is a regular supervisory review of these calculations.

Criteria: State Administrative Manual (SAM) section 20050 states that the elements of a satisfactory system of internal administrative control shall include an effective system of internal review.

Recommendation: We recommend that Personnel Services take steps to collect any overpayments due to the Department. We recommend that Personnel Services set up written procedures and prepare calculation spreadsheets that Transaction Specialists can access to help them perform their employee separation tasks.

DPR Response: With regard to the overpayment of the separated employee – Mr. G – who was overpaid by 168 hours, the Accounts Receivable collection forms have been sent to State Controller's Office. This error was a result of inaccurate reporting of time on the timesheets between 12/2004 and 04/2005. Time used was posted as time worked on the timesheets. The information has been confirmed with the

AUDIT FINDINGS AND RECOMMENDATIONS

PERSONNEL SERVICES

District and timesheet correction forms (DPR 109s) have been requested. To date no funds have been collected. The process is to: 1) collect directly from employee, or 2) from Franchise Tax Board.

With regard to the overpayment of two employees (117 hours – Mr. S - and 16 hours – Mr. C respectively), the Accounts Receivable collection forms have been sent to the State Controller's Office. To date no funds have been collected. The process is to: 1) collect directly from employee or 2) from Franchise Tax Board.

Personnel Services Section has developed procedures for processing separation pay. Please see attached. Further, each separation calculation worksheet is submitted for supervisory review and approval prior to issuance of pay.

FINDING 8

Timesheets not processed correctly

Condition:

We examined a sample of seven timesheets from recently separated employees and found the following problems:

1. We found three instances where the employee had accumulated more vacation or annual leave than allowed by bargaining unit contracts. These overages ranged from 79 hours to 127 hours.
2. There was one instance where the employee used 52 hours of CTO according to the timesheet, but only 46 hours was recorded on the HRIS.
3. There was one timesheet that showed that the employee was paid for 8.5 hours of overtime during a week when the employee only worked a total of 40.5 hours.
4. Four of the seven timesheets were not signed by the personnel specialist. Three of the timesheets were not signed by the timekeeper.

Criteria:

State Administrative Manual (SAM) section 20050 states that the elements of a satisfactory system of internal administrative control shall include an effective system of internal review.

AUDIT FINDINGS AND RECOMMENDATIONS

PERSONNEL SERVICES

Recommendation: We recommend that Personnel review its procedures with employees, both at headquarters and in the field units. Steps should be taken to improve procedures and provide training where needed.

DPR Response:

- 1) It has been the practice of Personnel Services to annually report over accumulation of annual leave/vacation to the appropriate managers and supervisors. However, it is not unusual for represented employees in specified bargaining units to over accumulate as operational need dictates the use of these leave credits; thus exacerbating the problem. Further, budgetary and policy constraints do not allow the Department to "pay down" excess balances. Supervisors and Managers are asked to develop a plan to burn down these over accumulations however, Personnel Services does not police this process.
- 2) A timesheet correction (DPR 109) has been requested regarding this employee [REDACTED]. To date no funds have been collected. The process is to a) collect directly from employee or 2) from Franchise Tax Board.
- 3) The employee in question physically worked 40.5 hours, but due to a holiday during that week, the employee was appropriately compensated for 8.5 hours of premium overtime pay.
- 4) Personnel Specialists have been reminded to sign all timesheets that cross their desk; if timekeepers have not signed timesheets, they are also reminded to return the timesheets for signature. As well, bi-annual desk audits will be performed by Trainers and/or Supervisors to ensure all processes are completed accurately.

AUDIT FINDINGS AND RECOMMENDATIONS

PERSONNEL SERVICES

FINDING 9 Controls over undelivered payroll warrants need improvement

Condition: We found that there were 441 warrants on the list of outstanding warrants that were more than 90 days old. Of the 441 warrants, 68 were 'actual' warrants, and 373 were 'direct deposit' warrants. Of the 68 'actual' warrants, nine were more than one year old. Of the 373 'direct deposit' warrants, 26 were more than one year old.

The problem with undelivered 'actual' payroll warrants is two-fold. First, the 'actual' warrants may be money (all or part) that is due to the employee but the employee cannot take possession until Personnel clears the problem. Two, the 'actual' warrant may be money that is due to the Department (all or part) but the Department can't take possession until Personnel clears the problem.

The problem with undelivered 'direct deposit' warrants is that the employee has taken custody of the money but there is some problem that may lead to the Department asking for some or all of that money back. If the employee separates before the money is recovered, it makes the recovery of the money problematic.

Criteria: SAM 8580.5, states that salary warrants not delivered within five days of pickup shall be returned to the office which distributes salary warrants. A written record of all undelivered warrants will be maintained and a copy given to the payroll office. Warrants not delivered within 90 calendar days of receipt must be deposited and remitted to an escheat revenue account in the original fund that provided the resources to the State Payroll Revolving Fund.

Good internal control requires that outstanding warrants be cleared timely.

Recommendation: We recommend that Personnel Services take steps to clear its accumulation of undelivered payroll warrants. Any warrants (non direct deposit) still undistributed after 90 days should be deposited and remitted to an escheat revenue account.

AUDIT FINDINGS AND RECOMMENDATIONS

PERSONNEL SERVICES

An accounts receivable should be established for any monies overpaid to separated employees. Collection efforts should be made as soon as possible.

DPR Response: Personnel Services Section has established new procedures relating to the warrant release process. Specifically, ALL warrants will be released unless the Warrant Release Desk receives a "Warrant Release Instructions to Accounting" (WRITA) form from Personnel which requires special processing or withhold of warrants. This WRITA is now electronically receipted to identify that the instructions have been received by the Warrant Release Desk. Please see attached form.

FINDING 10 HRIS balances not automatically cleared when employee separates

Condition: We tested seven employee separations. We found that four of those seven had not had the HRIS leave balances zeroed out after the employee separated. If the HRIS balances are not zeroed out and the employee returns to work, the employee may still have access to use those hours that they received credit for at separation.

Criteria: State Administrative Manual (SAM) section 20050 states that the elements of a satisfactory system of internal administrative control shall include an effective system of internal review.

Recommendation: We recommend that Personnel Services implement written procedures that will ensure that HRIS balances are timely cleared following employee separation.

DPR Response: Please see new processes identified in Finding #7. This also includes the "zeroing" of balances upon separation. The Separation Check Sheet includes instructions for zeroing out balances and also requires a screen print of the HRIS screen showing zero balances.

AUDIT FINDINGS AND RECOMMENDATIONS

CONTRACTS AND ASSET MANAGEMENT

CONTRACTS

FINDING 11

Minor Contract errors

Condition:

We sample tested a large number of the Department's contracts. Our sample covered all manner of purchasing, including CMAS contracts, Inter-agency contracts, small dollar contracts, and Cal-Card purchasing. We found that Department employees are knowledgeable, and follow State Contracting Manual guidelines. The small number of instances of noncompliance that we found appeared to be errors, and not indicative of any weakness in procedures, failure of oversight, or deliberate action. We have reported these instances to the Department in our Audit of Contracting Practices (Misc.- 89).

Criteria:

Both the State Contracting Manual and the Departmental Contract Administration Users Guide plainly state the requirements for contract support documents, including all of the items listed above.

Recommendation:

We recommend that Contracts and Asset Management Section continue its development and training efforts to ensure that Department contracts continue to remain at the present high level of compliance.

DPR Response:

We are very pleased with this finding and will continue to update our Contract's User Guide and develop and provide training. Thank you for the complimentary comments.

FIXED ASSETS

FINDING 12

Structure Inventory contained errors.

Condition:

Our previous audit of the Department's structure inventory disclosed that the Contracts and Assets Management Section did not maintain adequate documents to support all addition transactions into the Structure Inventory data base. All support documents were maintained in the districts. In our previous audit we performed a sample test of five transactions and tested with the documents maintained in the districts. We found substantial discrepancies for 4 out of

AUDIT FINDINGS AND RECOMMENDATIONS

CONTRACTS AND ASSET MANAGEMENT

FIXED ASSETS (continued)

5 transactions. As a result, the structure inventory from the sample test was understated by \$157,096, and therefore the year end General Fixed Asset Account was in error. We also found an instance of incorrect funding source in one of the five transactions.

Our follow-up on these same structures indicates that they have not yet been updated.

Criteria: SAM 8631 requires assets be recorded at cost. Cost is the purchase price plus all incidental costs incurred to put the asset into place and ready for its intended use. SAM Section 7924 requires agencies to annually reconcile the amounts reported in the Statewide Property Inventory with the Statement of Changes in General Fixed Assets.

Recommendation: All structures should have been verified with proper support documents for accuracy prior to being entered into the structure inventory data base and posted to General Fixed Asset Account Group.

DPR Response: We had some staffing issues with the positions – two of the four needed funding corrections have been done. We are awaiting information from the District on the remaining two. These are anticipated to be corrected by the end of February 2008.

FINDING 13 Improvements Inventory not completed

Condition: The Department had not performed an inventory of improvements since 1989. Technical difficulties have prevented the identification of funding sources when trying to capture the improvement costs into the inventory data base system.

Criteria: SAM Section 8652 requires agencies to make a physical count of all property and reconcile the count with accounting records at least once every three years.

Recommendation: We recognize that completion of the improvements inventory is dependent on agreements with the Department of General

AUDIT FINDINGS AND RECOMMENDATIONS

CONTRACTS AND ASSET MANAGEMENT

FIXED ASSETS (continued)

Services and others as to the exact definition of an improvement. The Audits Office will monitor these issues in our biennial audit as mandated by SAM 20000.

DPR Response: CAMS and Park Operations Technical Services staff is still working together with DGS/SPI Unit to define these – we appreciate Audit's understanding of the issue.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

The Audits Office of the Department of Parks and Recreation performed the prior SAM 20000 audit in October and November 2005. This audit covered the period July 1, 2003 through June 30, 2005. We have reviewed the Department's progress in addressing these findings. Shown below are the results of our follow up.

CASH RECEIPTS

FINDING 1 - Weaknesses in internal controls over cash receipts at field units

Condition: We reviewed thirteen park districts during the 2003-2005 fiscal years. We found instances at many park units where the internal controls over cash receipts were not in compliance with SAM, DAM, and the Department's 'Cash Handling Handbook.'

A summary of the types of problems we found are as follows:

1. Cash collected at park entrances and the record of cash collected is often placed in the custody of one employee. This has the effect of reducing or eliminating internal control over cash receipts.
2. Pay shower revenue is often collected and accounted for by one employee, and sometimes by volunteers. We often found no evidence that shower meter readings were taken or reconciliation made of meter readings to cash collected. Some pay showers do not have operational meters.
3. Cash registers are not in use at many park units, even when electricity is available and reliable.
4. Often, the cash registers in use do not contain necessary internal control features, such as Z numbers and Group Total numbers. Even when the cash registers have these features, they are often not used.
5. Park units continue to use the iron ranger to collect fees even though they provide poor accountability over collections, and no reliable audit trail.
6. Entrance station keys and safe combinations often go unchanged for years, despite staff turnovers.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

CASH RECEIPTS (continued)

7. There is often no internal control over cash receipts from firewood, maps and other items sold on behalf of the cooperative association at the District's park units.
8. Periodic reconciliations of daily DPR 156's, logs, bank deposits, and ROCs are often not performed.
9. Cash receipts are sometimes not deposited timely in accordance with State and Department requirements.

Criteria:

SAM Section 20003 requires a system of internal controls for the purpose of safeguarding State assets. Internal controls over cash are designed to safeguard cash, and to prevent or detect errors and thefts.

Good internal control requires separation of duties over cash handling and accounting for cash, a recorded chain of custody of assets, and establishment of a good audit document trail.

The DPR 'Cash Handling Handbook' requires that association cash derived from the sale of firewood and other items be secured in a separate, association owned safe.

The Department's 'Cash Handling Handbook' prescribes procedures to be followed in order to achieve internal control over cash receipts.

DAM Section 0620.6 requires timely deposit of cash receipts.

Recommendation: We recognize that park units are diverse in staffing and geography. We further recognize that procedures cannot be uniform for every park unit. We have proposed steps in our District audit reports that would significantly improve internal control with little or no additional cost and only minor changes in procedure. We recommend that the Department assist the Districts in moving toward better internal control over cash receipts, and better compliance with SAM, DAM, and the DPR 'Cash Handling Handbook.'

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

CASH RECEIPTS (continued)

- DPR Response: We concur that the Department continuously improve its systems for internal control over cash receipts. The Business and Fiscal Services will continue to work with and notify Districts of the compliance requirements found in DAM, DAM, and the DPR Cash Handling Handbook. The Section will continue its development and delivery of statewide training programs for District personnel.
- Audit Follow-up: The Department has made great strides in improving internal control and accountability over cash receipts during the past two years. Many of the conditions cited in this finding have been reduced to a low level of materiality. Some improvement is still needed. Please see Finding 1 on page 3 of the current report.

ACCOUNTS RECEIVABLE

FINDING 2 Improvement needed in managing accounts receivable

- Condition: We found instances where improvement could be made in managing accounts receivable.
- In the area of miscellaneous receivables, we found instances where park districts did not timely submit information to Accounting. Consequently, Accounting did not begin timely collection efforts. We also found instances where Accounting received information from park districts but did not begin collection efforts timely. Such delays reduce the probability that collection will be made.
- In the area of payroll accounts receivables, we found weakness with regard to separation of duties. The employee handling the accounts receivable has access to the payroll warrant and also prepares the monthly reconciliation for the payroll accounts receivable. We also found instances where collection efforts on payroll accounts receivable were not made timely.
- In the area of reimbursement receivables we found instances where billings were not sent within 30 days of the recognition of the receivable. We tested ten reimbursement

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

ACCOUNTS RECEIVABLE (continued)

receivables. We found one receivable (totaling \$655,218) that was invoiced two months after recognition. We also found one receivable (totaling \$34,048) that was not invoiced until three months after recognition.

We also observed that the subsidiary records for reimbursement receivables or open invoices are not reconciled to the general ledger.

Criteria:

SAM 8776.3 states that "invoices or other type of claim document will be prepared and sent out as soon as possible after the recognition of a claim."

SAM 8080.1 states that a key in a system of internal controls is separation of duties. No one person should perform the duties of receiving remittances and reconciling input to output.

SAM 8776.6 states that each department will develop collection procedures that will assure prompt follow-up on receivables. SAM 7800 requires that subsidiary records be reconciled to the general ledger monthly.

Recommendation: We recommend that the Business and Fiscal Services remind the districts of the importance of timely reporting of accounts receivable. We also recommend that Business and Fiscal Services work to improve coordination with Personnel to ensure that collection of payroll accounts receivable are done timely.

In addition, we also recommend that procedures be reviewed to ensure that controls are in place to prevent irregularities due to lack of separation of duties, and that reconciliations are completed in accordance with SAM.

DPR Response: We concur with the findings. The Department will continue improvements to its accounts receivable management program through training, written notification and audits.

However, the Business and Fiscal Services Section now systematically notifies Districts of outstanding contractual

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

ACCOUNTS RECEIVABLE (continued)

invoicing, achieving a 90 percent and above billing rate. The Section will explore other avenues for system improvements.

The Business and Fiscal Services Section will continue review of its internal staff responsibilities and systems, to ensure 100 percent compliance of the separation of staff duties in the area of payroll receivables. Training and written notification will be instituted. The Section will also continue its timely notification to Districts and managers for required documentation on reimbursements and the accounts receivable process. The Section is reviewing its training programs and will incorporate specific training modules that address these issues.

Audit Follow-up: This condition appears to have been substantially corrected.

PURCHASING

FINDING 3

Review of encumbrances and open purchase orders/contracts need improvement

Condition: We tested a small sample (20 encumbrances) of open purchase orders and contracts and found that improvement was needed with regard to following established procedures. Two of the 20 encumbrances we tested did not have signatures on the purchasing documents as evidence that the availability of funds was certified. Eight of the 20 encumbrances we tested did not show timely follow-up of encumbrances for continuing validity. Our sample was taken from November 8, 2005. The most recent follow-up dates on these eight encumbrances ranged from June 2004 to June 2005.

Criteria: SAM Section 8340 states that the certificate as to availability of funds must be signed by the accounting officer or delegate. Good internal control requires timely follow-up of encumbrances to allow for funds to be used for other needs.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

PURCHASING (continued)

Recommendation: We recommend that Business and Fiscal Services review their procedures with staff to ensure that certifications are made when needed and encumbrances are timely followed up.

DPR Response: We concur with the findings. The Business and Fiscal Services will provide staff training and procedure notifications on required certification signatures and documentation regulations prior to document processing.

District and Division staff is routinely contacted for status reports on encumbrances with no payment activity in 90 days. Encumbrance balances are reviewed monthly for validity and accuracy. However, the Section will develop new systems to increase the timely review of such encumbrances and District response documentation. The Section will incorporate requirements in its accounting training programs and collaborate with The Contracts Assets Section in their training programs.

Audit Follow-up: Similar conditions continue. Please see Finding 4 on page 5 in the current audit report.

FINDING 4 Late payment penalties

Condition: During the 2004-2005 fiscal year, the Department paid \$146,281 in late payment penalties. This was an increase from the \$71,327 in late payment penalties that we reported in the prior SAM 20000 audit for the 2002-2003 fiscal year.

Criteria: SAM 8474 (California Prompt Payment Act) requires State agencies to automatically calculate and pay penalties if they fail to pay properly submitted, undisputed invoices on the date required by the contract. Consequently, management must act prudently to ensure that controls are in effect that will minimize late payment penalties.

Recommendation: The Department should analyze instances of substantial late payment penalties and make a determination as to whether they are caused by unavoidable circumstance, poor

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

PURCHASING (continued)

planning, or poor monitoring of project progress. This information should be used to prevent future penalties.

DPR Response: We concur with the findings. The Department continuously strives to reduce its late payment penalties. The Business and Fiscal Services Section will continue to provide training on the Prompt Payment Act and staff responsibilities for compliance. The Section will continue its review of accounting records and report late payments to District and Division management for their operational action. The Section will continue to review its communication systems on statewide fiscal deadlines and incorporate improvements for field and program operations.

Audit Follow-up: Similar conditions continue. Please see Finding 5 on page 6 in the current audit report.

CASH DISBURSEMENTS

FINDING 5 Minor internal control weaknesses in the cash disbursements process

Condition: We have reviewed the internal controls over the cash disbursements process. In general, we found that the controls were good and in compliance with State and Department requirements.

However, cash disbursement employees operate as a team, and sometimes perform multiple duties. It appears to us that in some instances, an employee might find themselves in the position where the same person authorizes payment, prepares the information for CALSTARS, prints the check, and takes custody of the check.

We also tested a sample of one day's cash disbursements. We found that a TEC was paid to reimburse an employee for a license renewal fee and a continuing education class. There was no evidence that the license was received, and no evidence of an approved training request (DPR 392) attached to the TEC for support.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

CASH DISBURSEMENTS (continued)

Criteria: Good internal control requires that a copy of the license and the completion certificate be submitted as evidence that the training and licensing did occur. An approved Training Request (DPR 392) should be submitted with the TEC.

Recommendation: One day's sample test does not necessarily indicate that there is a problem. Our detection of a deficiency may have been just happenstance. However, in the prior SAM 20000 audit, we also found problems with only a one day sample. Consequently, we recommend that Accounting Services remind the staff to be vigilant with regard to errors and missing documents before making disbursements.

DPR Response: We do not concur with this finding. There is a clear separation of duties in the processing of warrants with three individuals responsible for specific components of the operation. Staff does not authorize payment but audits travel expense claims for processing. One staff member has specific responsibility in information preparation for CALSTARS. Another staff member takes custody of warrants for distribution. However, the Section will continue review of existing procedures with assigned staff for continued compliance to regulations.

We do concur with the second part of the finding. The Section will review established documentation and verification standards with staff and provide training as necessary.

Audits Response: We have reviewed the DPR response to the first part of this finding. We are pleased to hear that Accounting will continue review of existing procedures with assigned staff for continued compliance to regulations. Accounting's statement: "There is a clear separation of duties in the processing of warrants with three individuals responsible for specific components of the operation" is true. However, Accounting employees by necessity must occasionally step into different roles in the process. Although we believe the risk of loss is small, we nevertheless must all be vigilant in monitoring the critical task of cash disbursements to ensure that errors or irregularities will be prevented or detected.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

CASH DISBURSEMENTS (continued)

Audit Follow-up: Our 2007 audit indicates that there are no material internal control weaknesses in this area.

PERSONNEL/PAYROLL

FINDING 6 Employee separation procedures need improvement

Condition: We examined a sample of five recently separated employees to test whether the final pay was calculated correctly and that the separations were properly and adequately supported. Three of the employees were seasonal employees and two were permanent employees.

Of the three seasonal employees, we found that two of them did not have the housing part of the DPR 213 cleared by Personnel prior to separation. One of the seasonal employees received a salary advance check on the day of the separation (required by AB 2410). However, Personnel did not hold this employee's payroll warrant and the employee wound up receiving the pay warrant and a \$500 salary advance. An accounts receivable has been established, but no collection has been made. The employee separated in 2003.

Of the two permanent employees that separated, one received an overpayment of 168 hours due to miscalculations made by Personnel. The worksheet calculations for the other permanent employee were not retained so we could not readily establish whether pay at separation was correctly calculated.

We also found that in four of the five separations, the HRIS leave balances were not zeroed out after the separation was completed.

We inquired about the possible reasons for these separation deficiencies. We discovered that Personnel does not have written procedures, checklists, or standardized worksheets to guide staff in the calculation of final pay at separation. We also found that separation calculations we examined did not receive a secondary review. The paperwork, which consists

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

PERSONNEL/PAYROLL (continued)

of calculation worksheets, calendars, and HRIS leave balances, is not retained after the employee is separated.

Criteria: State Administrative Manual (SAM) section 20050 states that the elements of a satisfactory system of internal administrative control shall include an effective system of internal review.

Recommendation: We recommend that Personnel review its separation practices. A set of written procedures governing separation should be established. Calculation worksheets should be standardized. Excel spreadsheets should be considered to reduce the possibility of math errors. In addition, final calculations should be verified by another employee and payment authorized by a supervisor. All paperwork relating to employee separation should be retained in one file until after the biennial Department audit is completed.

DPR Response: We concur with the findings. Personnel will review DPR employee separation procedures and systems to insure compliance with State requirements and improvements.

Seasonal employee housing is not collected through payroll deduction. Housing is paid directly to the District by the employee. Therefore, Personnel Transactions has no way of knowing whether or not these employees have been cleared from housing at the time of separation. Personnel will continue to notify Districts of the correct procedures and DPR 213 completion requirements for housing through training modules and memorandums.

Personnel Transactions is attempting to collect the \$500 overpayment through the collection notice process. The employee's failure to comply will result in the Department collecting the overpayment through the Franchise Tax Board.

Personnel Transactions is attempting to collect the overpayment of 168 hours through the collection notice process. The employee's failure to comply will result in the

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

PERSONNEL/PAYROLL (continued)

Department collecting the overpayment through the Franchise Tax Board.

Personnel Transactions will establish standardized separation procedures to include a standardized methodology and retention of final pay calculations. These procedures will include supervisory review of final pay collections.

Personnel Transactions is currently developing a "Transactions Desk Manual" as a resource for training new personnel and as a reference/resource for staff. This manual will contain a "checklist" of tasks to be completed when separating an employee.

Audit Follow-up: Similar conditions continue. Please see Findings 7-10 beginning on page 7 in the current audit report.

FINDING 7 Salary advances are not always collected timely

Condition: We found instances where salary advances were not collected timely. As of October 2005, the Department had 26 advances totaling \$11,032. Of these 26 advances, Fifteen (totaling \$5,015) were more than 120 days old. Of these fifteen advances, nine (totaling \$3,551) were to employees who are not listed on the current employee roster. This leads us to believe they have separated, with diminished chances for future recovery of these advances.

Similar conditions were noted in the prior audit. However, the Department has made progress in this area.

Criteria: Salary advances are allowed (SAM Section 8595) to alleviate hardship. However, advances are supposed to be for salaries earned. Any overpayments are supposed to be collected from the employee timely (SAM Section 8776).

Recommendation: We recommend that Personnel Services continue its efforts to timely process salary advance receivables.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

PERSONNEL/PAYROLL (continued)

DPR Response: We concur with these findings. Personnel Services will review its procedures and systems for timely processing of salary advance receivables. The Transaction Desk Manual will be revised to include a salary advance process and timely clearance of salary advances. Staff will be fully trained in the procedures.

Audit Follow-up: Personnel Services has improved their processes greatly. This condition is considered to be corrected.

FINDING 8 Collection efforts for payroll accounts receivable not timely

Condition: We selected seven recent payroll accounts receivable (established by SCO) to test to determine if collection efforts were being pursued in a timely manner. We found that in five instances, collection efforts were not pursued timely after receiving notice from the SCO.

Three of these payroll accounts receivable were established in March, April, and June 2005, respectively; but as of the date of our audit (November 8, 2005) no notification letters had been sent out to the employees. One of the payroll accounts receivable was established on January 4, 2005, but the notification letter was not sent to the employee until July 8, 2005.

Criteria: SAM Section 8776.3 requires Departments to send out an invoice or other type of claim document as soon as possible after the recognition of a claim.

Recommendation: We recommend that Personnel Services take appropriate steps to ensure that current and former employees are timely notified that they owe the Department money.

DPR Response: We concur with the findings. Personnel will review procedures and develop standardized accounts receivable collection procedures and systems in concert with the Accounting Unit.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

PERSONNEL/PAYROLL (continued)

Audit Follow-up: Similar conditions continue. Please see Finding 7 on page 7 in the current audit report.

FINDING 9 Internal control weaknesses in timekeeping system

Condition: The Department's timekeeping system has internal control weaknesses that have the potential that timekeeping irregularities could occur and not be detected.

The timekeeping system allows individual unit timekeepers to post their own time records as well as those of the employees in their unit. The timekeeping system allows Personnel Specialists at Department headquarters to make changes in any employee's time records (including their own) for a period of several weeks after the initial posting.

It does not appear that there is any systematic review or reconciliation made to ensure that posting irregularities would be detected.

Our sample tests of the timekeeping system did not detect any timekeeping irregularities. Nevertheless, we want to apprise the Department that unauthorized adjustments could be made by timekeepers and likely not be detected.

Criteria: State Administrative Manual (SAM) section 20050 states that the elements of a satisfactory system of internal administrative control shall include an effective system of internal review.

Recommendation: We recommend that Personnel Services consider a procedure whereby management at Personnel Services, and at the unit level, would occasionally (and on a limited sample basis) compare the leave history balances with time sheets and document the results. At their discretion, Personnel Services management and unit managers might restrict their sample testing only to Personnel Specialists and timekeepers, since it is these employees who have access to the timekeeping system.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

PERSONNEL/PAYROLL (continued)

The results of these reviews should be retained until after the completion of the biennial SAM 20000 audit. Should an irregularity be detected, Personnel Services and unit managers should notify the Audits Office.

DPR Response: We concur with the findings. The Personnel Services Section will develop new procedures whereby the Personnel Specialist in Headquarters will key timekeepers' attendance for those on their rosters. Additionally, the Personnel Services Supervisor will key the attendance for the Personnel Specialist in Headquarters that processes Personnel Services attendance.

Audit Follow-up: This condition is considered to be corrected.

FINDING 10 Separation of duties weakness in processing of Time and Attendance Report (STD 672)

Condition: We found a weakness in the procedures that would allow any Personnel Specialist to enter unauthorized overtime hours for themselves or other DPR employees into the SCO's payroll input system; and as long as they confine the transaction to the unit(s) they are responsible for, there is little likelihood of detection. A Personnel Specialist could also prepare a warrant release form (DPR 17) and take custody of the overtime pay warrant, or direct it to another employee.

The Personnel Specialists are responsible for processing and certifying the 'Time and Attendance Report' (STD 672) for employees. Each Personnel Specialist has assigned unit(s). Each Personnel Specialist certifies his/her own STD 672 and also has access to the State Controller's Office (SCO) payroll input system. It does not appear that there is any systematic review or reconciliation made to ensure that posting irregularities would be detected.

We detected no irregularities and we believe that the likelihood of a material fraud occurring is remote. Nevertheless, we want to apprise the Department of this area of weakness.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

PERSONNEL/PAYROLL (continued)

Criteria: State Administrative Manual (SAM) section 8539 requires that a person certifying attendance reports cannot certify his/her own attendance report.

Recommendation: We recommend that Personnel Services consider instituting either preventive or detective controls designed to reduce the risk that a payroll fraud could be perpetrated and not timely detected, and perhaps not detected at all.

DPR Response: We concur with the findings. The Personnel Services Section will review systems and develop procedures that allow for reconciliation between timesheet and STD 672 in Headquarters (for the Personnel Specialist). However, overtime paid to "field" employees will be reconciled at the District level.

Audit Follow-up: This condition is considered to be corrected.

CONTRACTS

FINDING 11

Contract file deficiencies

Condition: We sample tested the Department's contract files and found some deficiencies. In most instances, the deficiencies were minor. However, some instances were more serious and are shown below. We found:

- Two contracts were subject to competitive bidding, and a subsequent amendment increased the dollar amount by more than 30 percent. However, Department of General Services approval was not obtained.
- One contract where we could not determine if the amendment process began prior to expiration of the original contract because of lack of documentation.
- Three contracts where the first invoices show that work started before the contracts were approved.
- Three contracts where the required ten percent withholding from progress payments was not done.
- Four contracts where it appears that a contract was split to avoid the formal bidding process.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

CONTRACTS (continued)

Criteria: Both the State Contracting Manual and the Departmental Contract Administration Users Guide plainly state the requirements for contract support documents, including all of the items listed above.

Recommendation: We recommend that Contract and Asset Management Section continue its procedures of development and training to ensure that all contracting requirements are met and that required documentation is maintained in contract files.

DPR Response: DPR has a decentralized contracting method. Each Division or District bids, awards and processes their own contracts. The Contracts Services Unit (CSU), a part of the Administrative Services Division; provides training, forms, oversight and review of these processes for the entire Department. CSU provides DPR's Districts and Divisions with a step-by-step, how-to contracting manual (The Contract Administrator's User Guide). This manual incorporates instructions from DGS' State Contracting Manual and DPR Departmental procedures. CSU also provides an intranet web-site containing information, sample contracts, and contract language models. CSU also provides in-service training to DPR's Contract Administrators.

It has been DPR's long time policy to comply with the five conditions listed in Finding 11. DPR addresses all five conditions in the Contract Administrator's User Guide, as well as during in-service training. CSU reviews contract documents for these conditions. Since the audit was conducted, CSU has held two training sessions for DPR's Contract Administrators. These training sessions each had an "audit results" component that specifically addressed Finding 11 and other audit findings as well.

Finding 11 is considered an anomaly as the conditions referenced in Finding 11 are not typical of DPR's contract files. DPR already has appropriate policies and procedures in place. Apparently the individual contract files in question had discrepancies that were not discovered and corrected during the CSU review.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

CONTRACTS (continued)

Audit Follow-up: Our comprehensive review of contracting practices and procedures, performed in 2007, revealed that there were no material problems.

FIXED ASSETS

FINDING 12 **Ancillary costs associated with land acquisition not reported to General Services. Statement of Changes in General Fixed Assets not reconciled with the State-wide Property Inventory**

Condition: The Department has never reported the ancillary costs for land acquisition to the Statewide Property Inventory. The Bureau of State Audits (BSA) has performed an audit on the Department's fixed assets for the fiscal 2003-04 as part of the State-wide comprehensive financial and compliance audit. From their audit, BSA found that the Department did not report \$3.4 million in ancillary costs for land acquired for the fiscal year 2001-02. Since the audit, BSA also has been performing an annual follow-up with the Department. As a follow-up, BSA has issued a report on February 18, 2005 citing the Department is still not in compliance. Our review of the Department's fixed assets under SAM 20000 confirmed the BSA's findings. Ancillary costs for land acquisition which were not reported to the DGS Statewide Property Inventory are as follows:

<u>Fiscal year</u>	<u>Ancillary costs</u>
2004-05	\$520,939
2003-04	\$1,910,414
2002-03	\$1,171,547

Criteria: SAM Section 8611 requires that all costs related to purchasing land be included in the capitalized amount. This includes ancillary costs such as legal and title fees, title search costs, grading, surveying, draining, etc.

The California Government Code, Section 11011.15 requires each agency to furnish DGS with a record of each parcel of real property that it possesses and to update its real property holdings by July 1 each fiscal year. It also requires DGS to

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

FIXED ASSETS (continued)

maintain a complete and accurate inventory of all real property held by the State. In addition, SAM Section 7924 requires agencies to annually reconcile the amounts reported in the Statewide Property Inventory with the Statement of Changes in General Fixed Assets.

Recommendation: We understand that there are some difficulties associated with reporting the ancillary costs to DGS in a format that allows input into the Statewide Property Inventory System. We recommend that Acquisition Section continue its efforts to bring the Department into compliance with SAM and the California Government Code.

DPR Response: Reconciliation of ancillary costs is pending resolve. These costs have been reported to DGS but not in acceptable format to DGS. Meetings with DPR Audits Office and Asset Management staff are ongoing to come up with an acceptable resolution. This is a high priority for the Section to resolve and we continue to work on it.

Audit Follow-up: Our follow-up indicates that this condition has been substantially corrected.

FINDING 13 Structure Inventory contained errors.

Condition: Our review of the Department's structure inventory disclosed that the Contracts and Assets Management Section did not maintain adequate documents to support all addition transactions into the Structure Inventory data base. All support documents were maintained in the districts. We performed a sample test of five transactions and tested with the documents maintained in the districts. We found substantial discrepancies for 4 out of 5 transactions. As a result, the structure inventory from the sample test was understated by \$157,096, and therefore the year end General Fixed Asset Account was in error. We also found an instance of incorrect funding source in one of the five transactions.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

FIXED ASSETS (continued)

Criteria: SAM 8631 requires assets be recorded at cost. Cost is the purchase price plus all incidental costs incurred to put the asset into place and ready for its intended use.

SAM Section 7924 requires agencies to annually reconcile the amounts reported in the Statewide Property Inventory with the Statement of Changes in General Fixed Assets.

Recommendation: All structures should have been verified with proper support documents for accuracy prior to being entered into the structure inventory data base and posted to General Fixed Asset Account Group.

DPR Response: We concur with this finding and will improve our process for obtaining the actual documentation from the Districts or the contract files when determining the value of a structure/site improvement. This can and will continue to be a problem when the facility is old and just being added to the inventory as part of the clean-up. There will be times that the documentation verifying the value is not available and the amount is based on the staff's best recollection or knowledge. We will also ensure that the corrections to the incorrect amounts that were found during the audit are completed and verified.

Audit Follow-up: This condition continues. Please see finding 12 on page 11 of the current report.

FINDING 14 Improvements Inventory not completed

Condition: The Department had not performed an inventory of improvements since 1989. In the response to our prior SAM 20000 audit, the Contract and Assets Management Section stated that they would make effort to complete the improvements inventory reconciliation by June 30, 2004. Our current review disclosed that there still has not been any inventory on improvements since the last SAM 20000 audit.

The Asset Management Section state that technical difficulties have prevented them from identifying the funding

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

FIXED ASSETS (continued)

sources when trying to capture the improvement costs into the inventory data base system.

Criteria: SAM Section 8652 requires agencies to make a physical count of all property and reconcile the count with accounting records at least once every three years.

Recommendation: We recommend that the Department continue its efforts. We ask that the Department respond with an estimated completion date. We will follow up on these efforts in the next SAM 20000 audit.

DPR Response: We concur with this finding. The Asset Management Section stated that technical difficulties have prevented them from identifying the funding sources when trying to capture the improvement costs into the inventory database system. This is correct in that we have the improvement inventory in a "facilities" portion of the CAMP database, but it does not include the funding source and value of the improvement. It is used to track actual maintenance costs. We are meeting and working with DGS/SPI staff to come up with a way to complete this task.

The owners of the data (Field Services staff) stated that they see the inventory being completed by June 30, 2009. The system is being completed (CAMP upgrade) to facilitate this information and the inventory reporting, but with approximately 20,000 improvements, this project will take a long time. It is a priority of the Department and we take this finding seriously.

Audit Follow-up: We recognize that completion of the improvements inventory is dependent on agreements with the Department of General Services and others as to the exact definition of an improvement. The Audits Office will monitor these issues in our biennial audit as mandated by SAM 20000.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

FIXED ASSETS (continued)

Finding 15 **Equipment is not always recorded at the acquisition cost.**

Condition: We conducted a sample test of mobile equipment purchases. We found that the amount posted into the equipment inventory database on 7 out of 10 vehicles tested did not account for the discount of \$500 the Department received for making the payments within 20 days nor the service fee of 2.48% charged by DGS.

Equipment inventory database is a source of data for properties to be capitalized (posted) to General Fixed Asset Account Group (GFAAG). If properties are not recorded at cost the amount reported in GFAAG will not be accurate.

This condition was reported in the prior SAM 20000 audit.

Criteria: SAM 8631 requires that assets be recorded at cost. Cost is the purchase price plus all incidental costs incurred to put the asset into place and ready for its intended use.

SAM 10520 requires purchase of property be recorded at net cost (after cash discount) plus sales tax.

The Equipment Transaction Document (DPR 484) is the basis for amount entered into the equipment inventory database. The DPR 484 is prepared when the vehicle is delivered to the warehouse and is based on the invoice and not what is actually paid to the vendor.

Recommendation: We recommend that the Department review the proper preparation of the DPR 484 with employees to ensure that the correct costs are reported.

DPR Response: We concur with this finding. The Contracts and Asset Management Section (CAMS) will continue its efforts for process improvements. The CAMS advised and reminded Property Custodians, via written memorandum, of their responsibility for completing required paperwork accurately and timely. The CAMS will reissue the reminder memo in an effort to remedy this discrepancy (ies). Property Unit staff

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

FIXED ASSETS (continued)

will also work with Accounting staff to determine the best method to get this information. The originating Section/District Custodian does not know what the actual payment amount is since the payments are processed through HQ Accounting to the SCO and out. The time factor in this process makes it impossible for the Property Custodian, who oftentimes is not involved in the purchasing or payment process, to know this information. They get the value information from the purchase documents. We will continue to work on this.

Audits Follow-up: Our audits from the 2005-2007 fiscal years did not detect any instances where the Department had not recorded the correct acquisition cost of purchased equipment.

FINDING 16 Assets are not always tagged timely after acquisition.

Condition: Our review of the equipment inventory reports issued for the headquarters units and the field district units by the Property Controller revealed that equipment is not being tagged timely after acquisition. Our review disclosed missing tags as follows:

- Office of Historic Preservation - three items missing property tags.
- Personnel - one item missing a property tag.
- Information Technology - seven items missing property tags.
- North Bay District - thirteen items missing property tags.
- Mendocino District - eight items missing property tags.
- Capital District - fourteen items missing property tags.

This condition was reported in the prior SAM 20000 audit.

Criteria: SAM 8651 requires all state property be tagged after acquisition. This includes property which does not meet all of the State's capitalization requirements.

Recommendation: We recommend that the Department remind units of the importance of timely and properly tagging State property.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

FIXED ASSETS (continued)

DPR Response: We concur with this finding. Responsibility for tagging assets after acquisition falls upon the Property Custodians. The CAMS advised Property Custodians through a reminder memo of their responsibility for completing the required paperwork accurately and timely. The CAMS will reissue the reminder memo in an effort to remedy the discrepancy (ies).

Audits Follow-up: The Department has made great improvements in tagging assets after acquisition. Although isolated instances of untimely asset tagging, or untagged assets still occurs, we do not consider it a material problem.

FINDING 17 Equipment Inventory needs improvement

Condition: We found the following internal control deficiencies related to the Department's equipment inventory:

1. Department units do not always prepare the Property Survey Report (Std. 152) when equipment is lost or discarded. Our sample test of lost/stolen/discarded transactions from Maximo equipment data base disclosed that 19 out of total 27 transactions were either missing the Std. 152 or not prepared in a timely manner.
2. Department units do not always prepare the Equipment Transaction Document (DPR 484) when the property is acquired or transferred. Our test of fiscal year 2004-05 purchase of mobile equipment disclosed that 42 out of 77 purchases of mobile equipment from Facility Support Division were missing the DPR 484.
3. Department units do not always make a physical count of all equipment every three years. Our review disclosed that 3 out of 52 headquarters units and 5 out of 24 field districts did not have physical inventory over three years period.

This condition was reported in prior SAM 20000 audit.

Criteria: SAM Section 8652 requires agencies to make a physical count of all property and reconcile the count with accounting records at least once every three years.

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

FIXED ASSETS (continued)

SAM Section 8602 requires that property such as motor vehicles be capitalized, and recorded into the General Fixed Asset Account Group.

SAM 8643 requires that STD 152 be prepared whenever property is lost, stolen, or destroyed. It requires that the STD 152 be retained as documentation.

Recommendation: We recommend that the Department take action to ensure that equipment is properly inventoried and recorded in accordance with the above SAM Sections.

DPR Response: We concur with this finding. We currently have a memo process that, where numbered memos are distributed to the Property Custodians and the Superintendents/Managers notifying them of procedural changes, etc. Additionally, the Department's Computerized Asset Management Program (CAMP) is currently being upgraded to remedy past problems in the property inventory and will be implemented upon conducting a comprehensive training program in February and March 2006. The CAMS will continue with efforts to educate Property Custodians and to enforce inventory procedures for optimum records.

Specifically to finding #17.2 – the CAMS staff, have repeatedly reminded the Facility Support Equipment Manager of the need to report purchased vehicles. This discrepancy was discovered when the DMV data reconciliation project was requested by DGS Fleet. Since that time, Facility Services has hired a retired annuitant with responsibility for this procedure. Improvements have been made in record completion and data entry into CAMP.

Specifically to finding #17.3 – We have made great improvement in the completion of the physical inventories. The HQ inventories are almost completed and the field inventories are scheduled throughout the next year. The Inspector for the field offices was out for most of the first six months of 2005 due to an injury. That accounted for the delay. The Inspector for the HQ offices is retiring soon so

PRIOR SAM 20000 AUDIT FINDINGS AND RECOMMENDATIONS FY 2003-05

FIXED ASSETS (continued)

we will be the HQ inventories scheduled as soon as the position is filled.

Audit Follow-up:

The implementation of the Department's Computerized Asset Management Program (CAMP) has vastly improved the efforts to control the Department's inventory equipment. Our observations made during the District audits showed that although errors are sometimes made, there is no material internal control deficiency.